OFFICE OF ACQUISITION MANAGEMENT
HARPERS FERRY CENTER
ADMINISTRATIVE GUIDELINE NUMBER 12
PREPARATION OF INDEPENDENT GOVERNMENT ESTIMATES
MAY 2006

I. BACKGROUND

An independent government estimate (IGE) is the Government's estimated cost or price of a particular requirement. The IGE is used to:

- Reserve funds for the contract as part of acquisition planning;
- Compare costs or prices proposed by offerors; and
- Determine price reasonableness in cases in which only one bidder or offeror responds to a solicitation.

II. PURPOSE

The purpose of this Administrative Guideline is to assist Contracting Officer's Representatives (CORs) in the preparation of a meaningful IGE, in conjunction with the submission of a purchase request (PR) to the Office of Acquisition Management.

III. POLICY

All requirements submitted to the Office of Acquisition Management require an IGE. This is a required element of a contract file. A simple estimate of current market prices or historical prices may be adequate for requirements up to the simplified acquisition threshold which is $100,000 or $5M for commercial items. Over this level, a more complete price or cost estimate is required. An explanation of the differences between a price estimate and a cost estimate follow.

The COR, with assistance by the Contracting Officer when required, is responsible for preparing the IGE. The estimate, which includes work sheets, remains confidential between the COR and the Contracting Officer.

IV. COST AND PRICE CONSIDERATIONS

The key to develop a good IGE is for the COR to analyze the requirement from the contractors perspective. From this perspective, the price of a particular item or service consists of:

- Direct costs incident to its production;
- A portion of the contractors' indirect or overhead costs for administrative staff, rent, heat, lights, and power; and
- Calculation for profit.

In developing the estimate, the COR must estimate the reasonable costs that a contractor may bear to perform the required services or to provide the supplies. A cost is considered "reasonable" if it reflects the action that a prudent business person would have taken at the time the cost was incurred.

Direct costs can be identified with the production of a particular item, process or service. Typical examples of direct costs include direct labor, equipment, material, travel, and subcontracts.

Indirect costs, or overhead costs, as they are often referred to, are costs which are not directly identified with a single, final cost objective. The Contracting Officer is the best source of information regarding this rate. They can provide estimates based on historical data from similar contracts.

Profit is an amount that contractors receive for contract performance over and above allowable costs. The statutory limit on profit under the terms of a firm-fixed-price contract is 15% of total direct and indirect costs. Most of the contracts negotiated at Harpers Ferry Center (HFC) are firm-fixed-price.

If you are preparing an IGE under the terms and conditions of an HFC IDIQ contract, the "loaded labor rates" contain a negotiated price for direct labor, indirect cost and profit.

V. PRICE ESTIMATES

A commercial supply IGE is much less complicated than the IGE for a custom media product and is considered a "price estimate". A price estimate, which is also referred to as a lump sum estimate projects the acquisition cost on a “bottom line” basis. This type of estimate may be useful when the ultimate award price can be determined without examining individual cost elements. When developing a price estimate, focus should be placed on:

- Prices and quotes, such as published or current catalog prices;
- Previous prices and quantity purchased;
- Quantity of items to be purchased; and
- Market surveys and other miscellaneous sources of pricing data.

In preparation of a price estimate, it is a matter of determining the market value of an item and using that figure as the IGE, documenting your research, then furnishing this information along with your PR to the Office of Acquisition Management. This IGE can be developed using numerous methods including:

- General Services Administration (GSA) schedules – prepriced and awarded to multiple firms for specific products or services. GSA schedules may be found at http://www.gsaadvantage.gov/.

- Published price lists – a listing from an individual company that is published for use by the general public.

- Catalog pricing – a pricing arrangement such as a J.C. Penney's catalog.

- Market survey – a comparison of the prices offered within the local area for an item. This action is normally developed in conjunction with the Contracting Officer.

- Previous buys – a comparison of previous purchases of the same item assuming comparability in quantities, conditions, terms, and performance times. Adjustments should be considered for inflation, and other factors, when appropriate.

Disclosure of information. Do not obtain pricing from vendors. Caution is advised when contacting vendors, as advance procurement information is sensitive. In addition, contact might be considered as commitment by the vendor. The only individuals authorized to make a commitment on behalf of the Government are the Contracting Officer, or their representative, and a purchase cardholder, within their spending limit.

Any other person who authorizes a commitment on behalf of the Government, can be held personally liable and disciplinary action can be taken. Before a vendor is contacted for information concerning a potential purchase, contact the Office of Acquisition Management.

Contracting personnel are trained to gather information and can provide valuable insight to ensure no unauthorized information is released and inadvertent commitments are avoided.

VI. DETAILED COST ESTIMATES

Detailed cost estimates serve as a basis to determine the type of contract, evaluate cost proposals, and conduct negotiations with offerors. A detailed cost estimate is required for services, construction, and non-commercial supplies estimated to exceed the simplified purchase threshold of $100,000.

Detailed cost estimates involve an analysis of the cost elements, i.e, direct labor and materials; applying current labor rates, overhead amounts and material prices; then adding an amount or percentage to calculate profit. A detailed cost estimate should contain an estimated amount for each applicable cost element, as follows:

Direct Labor – Identify the tasks and determine the categories of direct labor required for each task, i.e, Project Manager, Exhibit Designer, Exhibit Specialist, etc. Estimate the total hours for each labor category by task or phase. Determine the hourly rate for each labor category (the Contracting Officer is a good source for this information.). Consider both the actual wages plus all direct fringe benefits. Multiply the number of hours by the rate(s). This will yield the estimated direct labor cost.

Materials – Estimate the type and amount of materials, purchased parts, and acquired services that will be required, and the cost of each.

Equipment – Identify the cost of equipment needed for the contract. Determine whether the equipment is likely to be owned or rented. Establish whether fuel and operator costs are included in equipment hours or calculated separately.

Subcontracts – If subcontracts are anticipated, identify the tasks to be subcontracted and provide an estimate for those costs.

Travel and Transportation – Estimate travel and per diem costs. This should be calculated by the number of round trips for each traveler, and the destination. Use the Government travel and per diem rates found at http://www.gsa.gov.

Indirect Costs and General & Administrative (G&A) rates – Some contractors have separate overhead and G&A rates; some incorporate all such costs into one overhead rate.

If you are preparing an IGE using the rates in an HFC IDIQ contract, the indirect cost and profit are in the “loaded labor rate”. If you are preparing an estimate for something outside of these areas, consult with the Contracting Officer for the rates to use in your estimate.

Profit – Profit is generally regarded as compensation for the risk involved to undertake the contract task.

If you are preparing an IGE using the rates in an HFC IDIQ contract, the profit is included in the "loaded labor rates." Otherwise, profits should range from 5% to 15% with 10% to 12% being the average for fixed-price contracts.

VII. OTHER IMPORTANT INFORMATION

Although an IGE is a part of the government procurement cycle, there is no detailed guidance on how to prepare an IGE in statutes or regulations. However, an IGE should:

- Bear a close relationship to the program being managed;
- Be independently prepared by a subject matter expert;
- Not be based on the amount of available funding; and
- Not be based on a contractors cost/price estimate.

When buying a commercial item with stable specifications, the estimator should research past price history and make adjustments for changes in the specifications, quantities or inflation factors. For items that do not have a detailed pricing history, it is necessary to do a detailed analysis of individual cost elements.

With a little diligence, you can provide an accurate estimate of these costs. By reviewing the statement of work, you can determine the labor categories and effort required including equipment, materials, and other direct costs, plus overhead to perform the operation. Multiple year requirements demand consideration of inflation costs. Additional costs such as G&A, and profit are applied to the bottom line.

A brief narrative of how the costs were developed and what reference materials were used should be provided with the IGE along with the name, title, and signature of the estimator, who is typically the COR.

VIII. SAMPLE IGEs

The following sample estimates and audiovisual forms are provided for use in your preparation of detailed IGEs:

- Attachment A - Exhibit Fabrication IGE
- Attachment B - NPS Uniguide Sign Program IGE
- Attachment C - Audiovisual Complete Production form
- Attachment D - Multimedia form